



Developer Services data gathering

Response to Ofwat's Consultation

22 July 2021

Northumbrian Water's response to: A consultation on Developer Services data gathering

We were one of a few companies to have had the opportunity to view and comment on Ofwat's first draft of this consultation, before it was circulated to all companies. We appreciate that Ofwat has modified its request in response to feedback it has received to the draft.

The workshop that was held with companies on 13 July 2021 was a valuable exercise to understand companies' views on the challenges they face in complying with a data request of this type.

We have the following comments to make before answering the specific questions in the consultation document:

- a) We support the requirement to collect data that separates cost and income for contestable and non-contestable work in the APR tables
- b) We support the requirement to collect data related to the proportion of contestable work undertaken by SLPs and NAVs

Q1. Do you envisage having any problems completing the data request for 2021-22 by July 2022, or the historical data for 2020-21 by w/c 20 September 2021?

The comments made in the workshop affirmed our initial assumption that providing the data in the proposed format would be a significant challenge for many companies as well as ourselves. Although the revised format of the request is a step towards a more realistic and achievable output, there were some significant and relevant concerns made about the benefit of collecting the data in the format this is currently being suggested. These concerns are well summarised in Ofwat's feedback document that was circulated following the workshop and we agree with most of the feedback and will encounter most of the issues that have been documented.

We do not have an obvious and easy way of determining whether a development is considered "financially closed". Our systems are currently configured in a way that records final costs when an asset (communication pipe, meter, length of main, sewer etc) is commissioned or we have provided a service to a customer, not when a whole development is complete. Whilst we can relate individual asset/service costs to a relevant development, to do so will require considerable manual manipulation of the data.

We have a significant concern about the benefit of providing quotation and cost data relating to developments that have taken a number years to complete. It is a very common situation for most new premises to be part of a development that takes several years (often between 5 and 10 years) to complete. As the connection costs for these developments are incurred sometime after quotations are provided, we can foresee inaccuracies appearing in the data returns unless a Net Present Value adjustment is made to bring data to the same cost/price basis.

We have the following comments to make about our ability to comply with the data request in its current format:

a) Provision of historical data for 2020-21 by w/c 20 September 2021

Our corporate systems are not configured in a way that would allow us to report the data in the format required.

One of the requirements of the request is to relate completed (financially closed) developments to the corresponding quotation. As we have explained earlier, this would be challenging and time consuming for us. Also, in cases where developments span several years, we would need to identify the quotation amounts from some legacy corporate systems, that have been replaced. The relevant cost data for this type of work now resides in newer systems. This means the relevant data will need to be extracted from several sources and manually combined to report it in the proposed format.

It is envisaged that the manual nature of this task will involve taking several experienced people away from their substantive roles. We are limited with the number of people who have the capability and capacity to assist with the request and our capacity is further compromised by the timing of the request to coincide with what is typically a time of year for people to take leave.

b) Provision of data for 2021-22 by July 2022

In relative terms, providing the data for 2021-22 is more likely to be achievable than the data request required in a) above. However, we have concluded that we would require investment in our systems, processes, and people to reduce the burden of manual manipulation of data.

Our corporate systems would need to be modified in a way that would allow us to report the data in the format required. We have not evaluated the scope of the modifications or estimated the financial cost to be able to seek approval for system development, as you might expect, at this early stage.

Q2. If you envisage problems with providing the full historical dataset for 2020-21, what areas would you remove from the data request, or how much additional time would you need to meet the request?

To make the data request slightly more manageable we would suggest the following are considered:

a) The removal of the requirement to report on network reinforcement cost and income in a way that apportioned them to individual developments

In the context of this exercise, we can't see the benefit in attempting the complex task of apportioning the cost and income of such work to individual developments or developments grouped by size.

The income and cost information relating to network reinforcement is already collected in the APR, albeit, not apportioned to individual developments.

b) The removal of the wastewater tables

Given this is a well-established area for contestable services, we would suggest that the request for this data has low value compared with the data requested for water for the purpose of this exercise.

- c) Requesting data from a shorter period (i.e. companies provide a smaller sample of their data from a few months rather than a full year)

Our strong preference is to limit the relevant period of the data request as it could improve the likelihood of the task being completed by the proposed submission date in September 2021 and more likely to provide a data set that has a reasonable confidence grade. A smaller sample of data would enable companies to test their capability to fulfil the data request without the burden of collating and analysing a year's worth of data. For some companies, with relatively low connection activity, the period may need to be longer than others so that a representative sample can be obtained.

If we were to submit our annual data in the format Ofwat has requested, we estimate that we will require at least an additional 6-8 weeks beyond w/c 20 September 2021 to complete the exercise.

Q3. Are the definitions (provided in the cover worksheet) clear enough to mitigate the risk of reporting inconsistencies between companies? If not, what changes would you recommend?

One of the key requirements of the proposed data request is to relate "financially closed" developments to their associated costs and quotation amounts. Whilst it will be challenging for us to identify and report on "financially closed" developments, if we were required to report on that basis, we feel that a definition of the term is required. For example, in terms of self-laid water assets does it relate to the date that the assets were vested, when an asset payment is made (where applicable) or something else? What does "financially closed" mean for self-laid sewerage assets?

Q4. Would you be able to provide information on cost drivers, in particular length of communication pipe and surface type (split into made/unmade)?

We have the capability to report on the length of communication pipe (in bands of length) and surface type where the communication pipe connection is made to an existing water main. However, in the case where the connection is made to a newly laid main, the developer nearly always excavates the ground, so surface type would not be relevant to us and we do not record the type of surface that they have excavated. Also, we do not currently record the length of a communication pipe that is connected to a newly laid main.

We think that the "no new main" and "new main" characteristics in the data table are sufficient to give an indication as to what the significant costs drivers are for third party providers. Including the surface type and communication pipe length as a requirement for the data request would increase the complexity of the data gathering exercise, and we would suggest they are not included in the request.

Q5. Are there any key new development characteristics you think are missing from the data request and should be included?

There are no key new development characteristics missing from the data.

We do not see the benefit of further categorising connections or developments into e.g. "commercial", "industrial", "domestic" etc. as was suggested by others in the feedback. Neither do we consider the density of a development to be a significant factor for the purposes of this exercise.

Q6. Is there any additional developer services data you collect that you think would be helpful to Ofwat?

We don't think there is any other relevant data that we collect that would be helpful.

Q7. Would an alternative data format be more appropriate (e.g., list/table of new developments connected in reporting year alongside relevant cost / revenue data and characteristics)?

We have considered whether an alternative data format (like the example you provided at the workshop) may be more appropriate and less complex for us to complete successfully. We appreciate that providing the data as per the alternative example could deliver a similar outcome to the data format included in the consultation and may be a more appropriate format for some companies.

In our case, any data format that has the requirement to relate our cost data to a) individual developments or b) where those developments are grouped by size, have very similar levels of complexity for us. The consequence is a significant amount of manual handling of data, for the reasons we have mentioned earlier.

It may be worth considering a change to the quotations data requirement so that companies report on those that have been accepted in a financial year rather than those that have been provided. In that way it could remove the requirement for companies to report on quotations that are not accepted or still valid but not yet accepted.